MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BAC3664 – ACCOUNTING THEORY

(All sections / Groups)

28 MAY 2016
9.00 a.m.-12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **3** pages with **4** questions only.
2. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Question 1 (25 marks)

a) Researchers who develop positive theories and researchers who develop normative theories often do not share the same views about the roles of their respective approaches to theory construction.

Discuss how do positive and normative theories differ? **(6 marks)**

b) Explain what is the importance and relevance of studying accounting history. **(5 marks)**

c)"The general acceptance of accounting standards is considered very important to the accounting profession". By whom does the profession require general acceptance of the standards, and why is it important to the profession?

(14 marks)

(Total: 25 marks)

Question 2 (25 marks)

a) The contemporary accounting theorists argue that one type of theory construction involves observing the practices and techniques of working accountants.

i. Discuss with an example what type of theory construction is this? **(3 marks)**

ii. Discuss the advantages and disadvantages of this approach? **(10 marks)**

b) Explain with examples, the usefulness of qualitative characteristics of 'faithful representation' and 'comparability' of IASB's conceptual framework. **(6 marks)**

c) Under regulatory capture theory, explain four situations that have been identified in which capture is said to occur? **(6 marks)**

(Total: 25 marks)

Question 3 (25 marks)

a) An Asian giant food processing company launched a hostile bid in 2012, for the HK-listed juice maker company. Several noted financial analysts observed that the HK-listed juice maker company remained undervalued by the market for a long time which allowed the Asian company to offer at 40% above the market price. This type of case indicates why current cost accounting was proposed. Discuss any FIVE advantages of current cost accounting.

(10 marks)

Continued...

b) The advocates of current cost accounting are convinced that it is more useful than historical cost. There are still arguments as to how the profits should be computed. Explain the arguments between the proponents of the physical capital concept and the financial capital concept.

(9 marks)

c) The elements directly related to financial position and income statement are assets, liabilities, income and expenses. Discuss the criteria/basis used to recognize them in the statement of financial position.

(6 marks)

(Total: 25 marks)

Question 4 (25 marks)

a) Bonus plans are used to reduce the agency costs of equity. Discuss the agency relationship giving rise to the agency cost of equity and explain how bonus plans can reduce particular types of agency problems.

(15 marks)

b) Does a study of the information content of profits announcements explain why firms use particular accounting practices? Does it help to predict which firms will use particular accounting practices?

(6 marks)

c) Discuss the arguments for and against convergence of accounting standards between the FASB and the IASB.

(4 marks)

(Total: 25 marks)

End of the questions